Expert Report: Fiduciary Management and Financial Sequestration of Russian Refinery Assets in Germany

Section 1: Executive Summary and Strategic Implications

1.1 Key Findings: Status of Russian Profit Flows

The German government has successfully imposed a temporary, yet robust, blockade against the transfer of operational profits from Rosneft's German refinery holdings back to the Russian Federation. Following the invocation of the Energy Security of Supply Act (EnSiG) in September 2022, the German subsidiaries, Rosneft Deutschland GmbH (RND) and RN Refining & Marketing GmbH (RNRM), were placed under fiduciary management (trusteeship).[1] This action has effectively halted the direct transfer of operational profits, dividends, and management control to the Russian parent company, Rosneft.[3]

Under the trusteeship, the Federal Network Agency (BNetzA) assumed control, resulting in Rosneft losing its voting rights in the subsidiaries, thereby eliminating its access to the companies' potential profits and resources.[3] The profits generated by the German refinery assets are currently sequestered within the German corporate structure, managed by the BNetzA.[3] It is critical to note, however, that while the flow of profits is blocked, Rosneft remains the undisputed legal owner of the shares in these companies.[3] This means the accumulated, sequestered profits represent a significant financial liability that Rosneft could potentially claim if the trusteeship were lifted, ruled illegal, or allowed to expire. The legality of the measure has been challenged by Rosneft but was upheld by the German Federal Administrative Court in March 2023, providing legal certainty for the current profit blockade.[3]

1.2 Overview of Risk Landscape and Policy Objectives

The imposition of fiduciary management was a high-stakes, pragmatic political and administrative maneuver. Its primary objectives were threefold: securing the uninterrupted operation of critical German energy infrastructure, facilitating the enforcement of the European Union's partial oil embargo, and crucially, avoiding the severe diplomatic and legal risks associated with outright nationalization (expropriation).[2] The German government's decision to avoid expropriation stemmed largely from fears that Moscow would retaliate by seizing German-owned assets within Russia.[7]

However, this reliance on a temporary legal structure—the trusteeship—has created a structural vulnerability. The indefinite prolongation of this status quo, necessary due to Rosneft's sustained and deliberate stalling tactics regarding the mandated sale of its assets, generates administrative strain and structural risks.[9] This strategy of delay by the Russian owner effectively maintains a state of legal limbo, postponing the resolution of ownership and keeping the sequestered profits in a state of suspended animation, pending a final political or legal decision.

Section 2: The Criticality of Rosneft-Affiliated Refineries in Germany

2.1 Ownership Structure and Asset Inventory

Rosneft Deutschland (RND), before state intervention, was the largest single oil processing company in Germany, accounting for approximately 12% of the country’s crude oil processing capacity.[1] RND maintains stakes in three critical German refineries: PCK Schwedt (Brandenburg), MiRo (Karlsruhe), and Bayernoil (Vohburg, Bavaria).[2]

The most strategically important asset is the PCK Schwedt refinery, in which Rosneft’s subsidiaries hold a majority stake of 54.17%.[11] The refinery is a central piece of northern Germany's energy infrastructure, providing approximately 90% of the fuel supply—including petrol, diesel, and jet fuel—for the entire Berlin-Brandenburg region, which includes the

capital's airport (BER).[3] This concentration of supply responsibility made the refinery's operational viability a matter of immediate national security following Russia's invasion of Ukraine.

2.2 Supply Chain Dependence and Security of Supply Mandate

The catalyst for the state intervention was the high dependency of the PCK Schwedt refinery on crude oil supplied exclusively via the Soviet-era Druzhba pipeline from Russia.[3] As Germany prepared for the EU oil embargo, expected at the end of 2022, it became clear that a voluntary cessation of Russian oil imports was impossible at Schwedt because Rosneft, as the majority owner, actively "blocked" efforts to diversify crude oil supplies.[14]

The failure to diversify demonstrated that Rosneft was utilizing its ownership stake and control over the pipeline-dependent facility as a strategic political lever, effectively holding a veto over Germany's ability to comply with sanctions and secure regional fuel supplies.[15] This structural control risked paralyzing the region's energy supply, fulfilling the legal criteria under the EnSiG to classify the situation as a "real danger" to energy security.[2] Consequently, the trusteeship was implemented not just to block profit transfers, but fundamentally to strip Russia of its strategic leverage over key German energy infrastructure and facilitate the transition to alternative crude sources via ports like Rostock and Gdańsk.[14]

Section 3: Legal and Administrative Architecture of Fiduciary Management

3.1 Legal Basis: The Energy Security of Supply Act (EnSiG) Section 17

The legal basis for the intervention was Section 17 of the Energy Security of Supply Act (EnSiG), which the Federal Government invoked on September 16, 2022.[2] The legal justification centered on the inability of RND and RNRM to maintain business continuity due to market uncertainties arising from their close ties to Russia and the corresponding sanctions regime.[2] The Federal Ministry for Economic Affairs and Climate Action (BMWK) noted that critical contractual partners—including financial institutions, insurance providers, IT firms, and

service sectors—were refusing to establish or continue cooperation with the Russian-owned entities.[2]

Rosneft challenged the decision, but the Federal Administrative Court (BVerwG), acting as the court of final instance for EnSiG matters, confirmed the legality of the order on March 14, 2023.[3] This ruling cemented the legal foundation for the profit blockade and the ongoing state control.

3.2 The Mechanism of Control Transfer

The imposition of trusteeship transfers all managerial and operational authority from the legal owner to the German state, specifically the Federal Network Agency (BNetzA).[1] The following table summarizes how the control elements shifted, demonstrating the mechanism that ensures the sequestration of profits:

Table 2: Financial and Managerial Restrictions Imposed by German Trusteeship (RND/RNRM)

Control Element	Status Prior to Trusteeship (Sept 2022)	Status Under Fiduciary Management (Post-Sept 2022)	Significance
Legal Ownership	Retained by Rosneft [5]	Retained by Rosneft [3]	Creates long-term legal liability risk.
Operational Control/Management	Held by Rosneft subsidiaries	Transferred to BNetzA [1]	Decouples decision-making from Moscow.
Voting Rights in Subsidiaries	Exercised by Rosneft	Lost by Rosneft; Exercised by BNetzA [3]	Prevents shareholder influence.
Access to Potential Profits/Dividends	Entitled to Rosneft	Lost/Sequestered by BNetzA management [3]	Direct answer to profit flow blockage.

3.3 Status and Repeated Extensions of Trusteeship

The EnSiG permits an initial trusteeship period of six months, which can be extended multiple times if necessary to safeguard energy security.[9] The measure has been repeatedly extended, with the latest—the sixth extension—announced in September 2025, prolonging state control until **March 10, 2026**.[6]

The decision to indefinitely extend the trusteeship reflects Berlin's reluctance to initiate the politically and legally contentious step of expropriation.[10] The prolongation of this legal limbo, however, is being exploited by Rosneft, which employs deliberate stalling tactics in the required asset sale process.[10] This effectively maintains a status quo that prevents a definitive resolution, forcing Germany to commit continuous political capital and administrative resources to maintain a temporary structure. The long-term policy consequence is that while the immediate financial drain on Germany is contained, the structural uncertainty persists, potentially deterring long-term private investment necessary for the refineries' future transformation.

Section 4: Mechanisms for Blocking Financial Benefits (The Profit Question)

4.1 Dividend and Profit Sequestration Protocol

The core financial function of the fiduciary management is to ensure "no profits flow to Moscow".[4] The BNetzA, as the appointed trustee, manages the operational cash flows of RND and RNRM. Since Rosneft has lost control over the management and voting rights, it cannot initiate or receive dividend distributions.[3]

Any retained earnings or profits generated by the three German refineries are legally trapped within the German subsidiaries' balance sheets. These funds are sequestered, likely held in designated or "blocked accounts" within German financial institutions, adhering to sanctions regulations that prohibit payments to the blocked Russian parent company.[18] The critical legal distinction is that these funds are not confiscated; rather, they are legally inaccessible to

Rosneft for the duration of the trusteeship, serving as inaccessible dividends potentially owed to the shareholder.

4.2 Analysis of Residual Payment Streams (Risk Assessment)

While the direct payment of profits and dividends is blocked, an analysis of residual payment streams is required to assess any potential indirect financial benefit flowing back to Russia. These risks typically arise from complex operational relationships, such as those related to Intellectual Property (IP), proprietary technical services, or legacy intercompany debt repayment.

Integrated oil companies often centralize specialized technical knowledge, proprietary software, or specific patented refinery processes (such as specialized cracking technology required for certain crudes) within the parent entity or its designated service subsidiaries.[20] Payments for the licensing or use of these services could represent an indirect financial transfer. To mitigate this risk, Germany had to secure explicit international regulatory relief from major sanctions bodies. The need to obtain specialized US General Licenses and UK special licenses authorizing continued operation with RND/RNRM demonstrates acute awareness of this transactional risk.[18] These exemptions validate the government's claim that the German entities are "decoupled" from Russian services, ensuring that necessary operational payments to third parties can proceed without violating secondary sanctions, and minimizing the risk of accidental technical fee leakage to Russia.[5]

4.3 Counterparty Confidence and Financial Stability

A major functional challenge of the trusteeship was restoring confidence among essential business partners, who had ceased or threatened to cease cooperation due to the high sanctions risk associated with the Russian ownership.[9] The BNetzA addressed this by actively seeking and obtaining international compliance confirmations.

The German government secured a "Letter of Comfort" from the US and special sanctions exemptions from the UK.[11] This international alignment provided the necessary external assurances to banks, insurers, and suppliers, legitimizing the continued operational engagement with the RND subsidiaries under BNetzA management.[6] This administrative success was essential, as the continued operation of the refineries—and therefore the financial viability and accumulation of sequestered profits—depends entirely on maintaining

access to global finance and supply chains for non-Russian crude oil.[9]

Section 5: International Sanctions and Compliance Validation

5.1 US Sanctions Regime (SDN Designation) and Exclusion

When the US designated Rosneft as a Specially Designated National (SDN), the German subsidiaries, RND and RNRM, risked being financially paralyzed under the US Treasury's 50% Rule.[4] Germany's strategy was to argue successfully that the trusteeship had rendered RND "completely separated" and "decoupled" from the Russian parent company.[22]

In response, the US government provided a written assurance known as a "Letter of Comfort," acknowledging that the assets were no longer under Russian operational control and would be exempt from new energy sanctions.[5] This move, reinforced by specialized General Licenses, permitted critical transactions necessary for the refineries' functioning to continue.[18] However, the US indicated that this assurance was conditional, floating a six-month deadline for Germany to resolve the permanent ownership limbo, suggesting that indefinite trusteeship alone is not a sufficient final solution.[8]

5.2 UK Sanctions Regime and General Licenses

The UK, which also targeted Rosneft, granted explicit special licenses allowing banks and businesses to continue engaging with the German-managed RND and RNRM.[16] The UK's Office of Financial Sanctions Implementation (OFSI) rationale confirmed that its sanctions were "not intended to negatively affect operation of these entities," explicitly recognizing the German state control as sufficient mitigation.[18]

The aligned approach by the US and UK highlights a critical balance in Western sanctions policy. While the immediate objective is to restrict Russian financial streams, the operational stability of key European energy infrastructure (particularly facilities like Schwedt, which are deemed "too critical to fail") takes precedence.[4] This willingness to grant exemptions validates

Germany's political strategy of utilizing trusteeship instead of immediate expropriation, as it secured essential international cooperation and minimized financial disruption, even if it leaves Russia with a residual, deferred legal claim over the sequestered capital.

Section 6: Operational Stability and Financial Viability Under Trusteeship

6.1 Crude Oil Diversification Success

A major operational objective achieved under the new management was the successful commencement of diversification, which Rosneft had previously blocked.[15] BNetzA-led management began securing alternative oil supplies, primarily utilizing Germany's capacity at the port of Rostock and coordinating supplies via the Polish port of Gdańsk.[14]

Despite these necessary steps, the operational transition has been challenging. The Schwedt refinery was historically calibrated for high-sulfur Russian Urals crude delivered via the Druzhba pipeline.[20] The shift to alternative, more distant sources has caused structural difficulties. Consequently, the PCK Schwedt refinery is operating at a reduced capacity, estimated to be around 80%, alongside increased operational costs.[25]

6.2 Operational Capacity and Cost Impacts

The sustained operational strain—reduced capacity and increased cost for crude oil supply—translates into direct economic pressure on RND and the local region.[25] The PCK refinery remains crucial, supplying the fuel needs for Northeast Germany.[12]

This economic pressure is not merely an internal commercial issue; it represents a form of indirect Russian leverage. The rising costs and operational uncertainty have fueled significant political tension in Brandenburg, the region surrounding Schwedt. Regional political actors, including the far-right Alternative for Germany (AfD), have capitalized on this instability, actively calling for the lifting of sanctions and the resumption of cheap Russian oil imports, arguing that current energy policies disregard local economic realities.[25] The risk, therefore, is

that sustained operational and financial difficulty at the refinery could generate enough political pressure to eventually force a policy reversal, which would compromise the profit blockade and potentially restore Russian influence over the assets.

Section 7: Future Outlook and Recommendations for Asset Divestiture

7.1 Strategic Status of Ownership and Divestiture Deadlock

The long-term goal for the German government is the divestment of Rosneft's assets, which Berlin deems the "most legally secure" pathway to attract necessary investment and secure permanent control.[17] Rosneft has formally committed to selling its German assets under agreement with the German government.[9]

However, evidence strongly suggests Rosneft is engaged in "deliberate stalling tactics," simulating negotiations without any genuine intent to complete a sale.[9] The current sale deadline, mandated under the latest trusteeship extension, is set for **February 28, 2026**, coinciding with the expiration of the fiduciary management in March 2026.[9] Russia exploits Berlin's hesitancy to nationalize, knowing that by delaying the sale, it retains legal ownership and the associated long-term claim to the sequestered financial assets.[10]

7.2 Contingency Planning and Final Resolution

Germany's persistent use of the temporary trusteeship—now in its sixth extension—highlights its caution against the anticipated Russian retaliation (seizure of German assets) that would follow outright expropriation.[7]

If Rosneft fails to complete the divestiture by the March 2026 deadline, Germany will face a critical policy threshold. The expiration of the trusteeship without a permanent resolution would risk management control and access to accumulated profits reverting to Rosneft, a scenario deemed unacceptable for national security. Therefore, the approaching 2026 deadline represents the strategic tipping point: Germany must either transition to a decisive,

permanent action—such as mandatory nationalization or a forced sale to a government-designated entity—or risk undermining the entire sanctions framework built around these critical assets. The sustainability of the profit blockade is contingent upon Germany's political will to move beyond temporary administrative control.

Section 8: Synthesis and Strategic Recommendations

The analysis confirms that Russia does not currently receive profits from its German refinery assets, as direct financial flows (dividends) are sequestered by the German state under the legally confirmed fiduciary management. However, this situation is maintained only through continuous administrative effort and political negotiation, and Russia retains a high-value, deferred legal claim to the accumulated profits.

Strategic Recommendations

1. **Forensic Review of Operational Payments:** The BNetzA, acting as fiduciary manager, should commission a continuous, forensic audit of all cross-border financial transactions, focusing particularly on licensing, technical service fees, and residual intercompany debt payments. This is necessary to confirm that all obligations owed to sanctioned Russian entities are routed exclusively into blocked accounts, thereby ensuring zero indirect profit leakage.
2. **Formalization of Dividend Escrow:** The accumulated, sequestered profits and dividends currently trapped within RND and RNRM should be formally placed into a government-managed escrow account, explicitly linked to the provisions of the EnSiG. This action would legally solidify the blockade against future claims and clarify the financial destination of the funds should the assets eventually be nationalized or sold.
3. **Establish Clear Expropriation Criteria:** The German government must define clear, non-negotiable legal and commercial triggers that will mandate the transition from temporary trusteeship to permanent nationalization or a mandatory state-managed sale. Communicating these criteria, effective upon failure to meet the March 2026 deadline, is essential to counter Rosneft's deliberate stalling tactics and provide necessary long-term planning certainty for the assets and the regional energy supply.

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